Example. [Reserved]

(b) *Deductions and credits.* In any case in which any amount otherwise constituting gross income is excluded from gross income under the provisions of section 931, there shall not be allowed as a deduction from gross income any items of expenses or losses or other deductions (except the deduction under section 151, relating to personal exemptions), or any credit, properly allocable to, or chargeable against, the amounts so excluded from gross income. For purposes of the preceding sentence, the rules of §1.861–8 shall apply (with creditable expenditures treated in the same manner as deductible expenditures).

(c) *Definitions.* For purposes of this section:

(1) The term *section 931 possession* means a possession that is a specified possession and that has entered into an implementing agreement, as described in section 1271(b) of the Tax Reform Act of 1986 (Public Law 99–514 (100 Stat. 2085)), with the United States that is in effect for the entire taxable year.

(2) The term *specified possession* means Guam, American Samoa, or the Northern Mariana Islands.

(3) The rules of §1.937–1T shall apply for determining whether an individual is a bona fide resident of a section 931 possession.

(4) The rules of §1.937–2T shall apply for determining whether income is from sources within a section 931 possession.

(5) The rules of §1.937–3T shall apply for determining whether income is effectively connected with the conduct of a trade or business within a section 931 possession.

(d) *Effective date.* This section shall apply for taxable years ending after October 22, 2004.

[T.D. 9194, 70 FR 18930, Apr. 11, 2005, as amended by T.D. 9248, 71 FR 5001, Jan. 31, 2006]

§ 1.932–1 Coordination of United States and Virgin Islands income taxes.

[Reserved]. For further guidance, see §1.932–1T.

[T.D. 9194, 70 FR 18931, Apr. 11, 2005]

§ 1.932–1T Coordination of United States and Virgin Islands income taxes (temporary).

(a) *Scope*—(1) *In general.* Section 932 and this section set forth the special rules relating to the filing of income tax returns and income tax liabilities of individuals described in paragraph (a)(2) of this section. Paragraph (h) of this section also provides special rules requiring consistent treatment of business entities in the United States and in the United States Virgin Islands (Virgin Islands).

(2) *Individuals covered.* This section shall apply to any individual who:

(i) Is a bona fide resident of the Virgin Islands during the entire taxable year;

(ii)(A) Is a citizen or resident of the United States (other than a bona fide resident of the Virgin Islands) during the entire taxable year; and

(B) Has income derived from sources within the Virgin Islands, or effectively connected with the conduct of a trade or business within the Virgin Islands, for the taxable year; or

(iii) Files a joint return for the taxable year with any individual described in paragraph (a)(2)(i) or (ii) of this section.

(3) *Definitions.* For purposes of this section:

(i) The rules of §1.937–1T shall apply for determining whether an individual is a bona fide resident of the Virgin Islands.

(ii) The rules of §1.937–2T shall apply for determining whether income is from sources within the Virgin Islands.

(iii) The rules of §1.937–3T shall apply for determining whether income is effectively connected with the conduct of a trade or business within the Virgin Islands.

(b) *U.S. individuals with V.I. income*—(1) *Dual filing requirement.* Subject to paragraph (d) of this section, an individual described in paragraph (a)(2)(ii) of this section shall make an income tax return for the taxable year to the United States and file a copy of such return with the Virgin Islands. Such individuals must also attach Form 8689, ''Allocation of Individual Income Tax to the Virgin Islands,'' to the U.S. income tax return and to the income